Exhibit 87

Statement of

RUSSELL A. RAU
Assistant Inspector General
for Auditing

NATIONAL AERONAUTICS AND SPACE ADMINISTRATION

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Mr. Chairman and Members of the Committee,

Thank you for the opportunity to be here today to discuss NASA's management of the International Space Station (ISS) Program. The NASA Office of Inspector General (OIG) regularly conducts reviews and audits of the ISS and related Human Space Flight[1] programs and has made numerous recommendations to improve cost, schedule, and technical performance. In today's testimony, we will highlight major challenges to the ISS Program with particular emphasis on contract and program management.

INTRODUCTION

The ISS Program is one of the largest and most complex international scientific projects ever undertaken. The Program's mission is to build and operate the ISS, a world-class orbital research facility. ISS assembly in orbit began with the launch of the U.S.-owned, Russian-built *Zarya* control module on a Russian Proton rocket in November 1998. The launch of the Space Shuttle *Endeavor* carrying the U.S.-built *Unity* connecting module followed in December 1998. Further, Space Shuttle and Russian launches have resulted in the deployment of the *Zvezda* Service Module and *Destiny* Laboratory Module, among other components. The first ISS three-member crew was launched in October 2000 on a Russian *Soyuz* Rocket, and a replacement crew was launched on the Space Shuttle *Discovery* (STS-102) in March 2001.

[1] NASA was appropriated $5.46 billion in FY 2001 for Human Space Flight.

In December 1999, NASA modified the fee structure of the ISS contract[12] and resolved numerous outstanding and potential contractor claims as part of a global settlement[13] that included an increase in contract cost of $404 million. A significant change involved the Government's ability to recoup award fee if on-orbit performance is unsatisfactory.[14] The restructure enables Boeing to earn up to 11 percent technical and cost award fees on new work added to the contract[15] (other than spares which have a separate fee arrangement). The technical award fee on new work is not subject to Government recoupment based on on-orbit performance problems. NASA accepted all of the contractor claims in the settlement at the amounts estimated by the contractor. Additionally, the entire $404 million amount was applied to increase the contract target cost, which is subject to award fee.

At the time of the global settlement, the cost overrun reported by Boeing was $986 million, the amount first formally reported by Boeing in March 1999. Currently, Boeing is continuing to report the same overrun ($986 million[16]) while at the same time indicating that it will submit claims for at least an additional $200 million.

The ISS Program Office estimates that prime contract activities are about $2.1 billion (26 percent) of the total new obligation authority of $8.0 billion provided in the FY 2001 President's Budget (FY 2001 through 2005). These amounts reflect the completion of design, development, test and evaluation (DDT&E) activities and an increase in research, launch, payload ground operations and other

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[12]The Price Negotiation Memorandum for this modification stated: "In January 1999, Boeing notified the Government that the estimated Variance at Completion (VAC) for contract NAS 15-10000 was $986 million. This additional VAC means that the contractor will now earn the minimum incentive fee (2 percent) specified in the contract. Therefore, there is no longer either a positive or negative incentive to control costs on existing work. Additionally, the earnings potential of any new work is penalized by past performance issues. It is important to re-incentivize Boeing's cost performance." The prior award fee provisions did not emphasize cost management because the incentive fee provisions were focused exclusively on cost. Therefore, the previous incentive fee provisions were converted to a fixed fee at the minimum 2 percent, and award fee pools were established for cost and technical management on new work added to the contract. The objective was to incentivize cost management by enabling the contractor to earn a reasonable return on the new work and not be further penalized by previous poor cost performance.

[13] The Price Negotiation Memorandum referred to the global settlement in the following manner: "The global settlement was negotiated as an integral part of the overall contract restructure which included moving to a new fee structure and reorganizing the Statement of Work to allow a new management approach for the Integration and Operations effort. No attempt was made to establish negotiation positions for, or to reach cost or fee agreement on individual issues. . . . The required result of the global settlement was to reach bottom line agreement on the estimated cost and fixed fee amount to be added to contract value to settle RFEA (Request for Equitable Adjustment) issues."

[14] Unearned award fee is also subject to reconsideration that could result in the fee being paid.

[15] In its Master Buy Plan for the ISS as of March 2001, NASA estimates that about $1 billion in additional contract value will be added to the ISS contract through completion in December 2003 for sustaining engineering, post-production support, and integration and operation activities.

[16] NASA estimates the cost overrun to be $1.14 billion, $154 million more than Boeing's estimate.